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THE SECRET INNER LIFE OF THE ENTREPRENEUR

YOU SPEND ALL YOUR TIME MOTIVATING OTHERS. SO HOW DO YOU GO ABOUT MOTIVATING YOURSELF?

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Writing the Perfect Press Release

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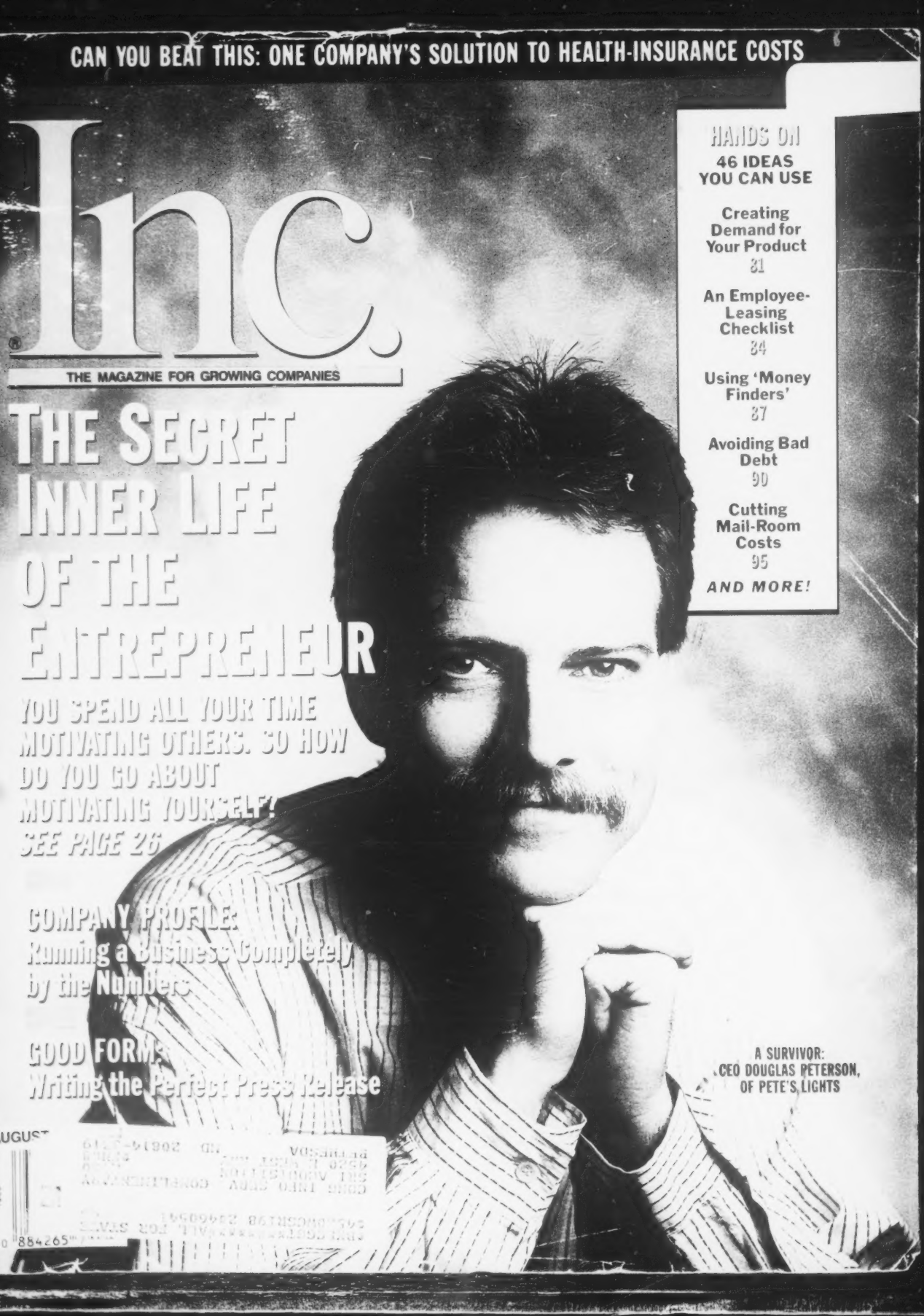
A SURVIVOR:
CEO DOUGLAS PETERSON, OF PETE'S LIGHTS



AUGUST

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Hands On

SALES & MARKETING

Leach & Parker presold kids to save Barney from the Ice Age.

DISTRIBUTION

Selling Your Customer's Customer

FIRST-TIME ENTREPRENEURS MIGHT FANTASIZE that their fabulous new products will be the ones to jump right off the store shelves. But wholesalers, distributors, and retailers have heard it all before. The reality is that lots of people stand between you and your customer, and they all have to be sold. The entrepreneur's job, as Sheryl Leach and Kathy Parker of The Lyons Group, in Dallas, now know, is to figure out who those intermediate customers are and how to sell them.

Leach and Parker created Barney, a purple dinosaur who cavorts with a pack of real kids in a half-hour song-filled video aimed at the preschool set. A couple of years ago, the team had assumed Barney's fortune was made after they had persuaded Toys "R" Us to put "Barney and the Backyard Gang" videos on their shelves for a market test in New York and New Jersey. "It was a dismal failure," says Leach.

Barney bombed back then because no matter how cute the reptile seemed to its creators, kids didn't know about him, so the distribution network didn't care. If Barney was going anywhere, The Lyons Group had to create demand. And Parker and Leach had to *(Continued on next page)*

PROSPECTING

Using Others to Sell Your Products

LACKING THE CASH TO build a full-fledged sales organization to blanket the country? Consider cultivating contacts in complementary industries who, for a finder's fee, can open doors for your salespeople.

Laser Vision Centers, a $1.2-million provider of laser equipment and medical-marketing services in St. Louis, used just such a "bird-dog network" to extend its selling efforts. "We became a national company quicker than we would have otherwise," says Jack Klobnak, CEO of the 10-person company. He has used the referral system since 1987.

Independent sales reps of related products mention Laser Vision's name to their physician clients and get them to block out time to meet with a full-time Laser Vision salesperson. If that leads to a sale, the contact gets a finder's fee equal to 10% of Laser Vision's fee for services—less than what a full-time rep would get but enough to make it worth the effort.

"These fellows are in the neighborhood and know the people we want to sell to," says Klobnak, who estimates that his bird-dog network generates 20% to 25% of Laser Vision's leads. "If we get the opportunity to make the pitch," he adds, "we make the sale about 40% of the time."

Klobnak found his eight or so scouts at trade shows and conventions. The approach has given him a risk-free way to try out potential reps. He plans to make five of them formal sales reps with their own exclusive territories. —***Susan Greco***

IN THIS SECTION

SELLING YOUR CUSTOMER'S CUSTOMER
How a dinosaur, once nearly extinct, created a market

USING OTHERS TO SELL YOUR PRODUCTS
Industry contacts can open doors

RESOURCE: DO-IT-YOURSELF SURVEY SOFTWARE

GET IN THE DOOR ONE STEP AT A TIME
Little chunks of business add up

TRAINING ON THE TRAIN
How to win over a captive audience

Edited by Tom Richman

PHOTOGRAPH: DAN BRYANT

(DISTRIBUTION, from page 81)
be sure that the demand penetrated the entire distribution chain. Disney and other corporate giants can create demand with money. Small companies like The Lyons Group (a start-up subsidiary of Developmental Learning Materials, a $50-million Dallas company) have to do it with smarts.

The Lyons Group strategy, after the Toys "R" Us debacle, boiled down to this: to presell the product at both levels of the distribution chain, retail and wholesale.

To get retail stores to stock the tapes, Parker and Leach had to presell consumers—kids, and through them their parents. So Leach sent free Barney videos to day-care centers in selected areas. The centers showed the tapes, and the kids were hooked. At the same time, Leach used part-time telemarketers to tell area retailers what she was doing. When several had agreed to buy a few tapes to stock, she sent the preschools a list of places where Barney was sold locally. Kids would nag parents, who would buy, which began the demand.

Then Leach told retailers they could get Barney from their regular distributors if they'd help her persuade those distributors to buy from her. Retailers did—with letters, calls, and orders for Barney tapes—which was the best sales argument Leach could bring to the wholesalers.

The sales process was a little more complicated with national retail chains, where Leach first had to sell local buyers, then get them to help her sell to national buyers, who then dealt with the next level of distribution. But the principle was the same: to presell the customer's customer.

Now Barney tapes are sold in practically every major video outlet, as well as toy stores, catalogs, supermarkets, drugstores, and bookstores. Last year, *TV Guide* named Barney one of its top 10 kidvids. The Lyons Group has spent about $675,000 over three years to nudge Barney and the Backyard Gang to national stardom.

A lot of money? Yes, but consider that just one 30-second TV spot can cost an advertiser $100,000 or more—*before* production costs. Smarter *is* cheaper. —*T. R.*

RESOURCE

Do-It-Yourself Survey Software

Customer surveys—the kind that ask, "How are we doing?" and "What would you like to buy from us?"—are useful but expensive.

Two years ago Proex Photo Systems, a photo-processing and portrait company based in Edina, Minn., paid a firm $35,000 to design and conduct a survey of 1,500 customers and to tabulate the results. This year 10-year-old Proex, with 20 retail locations in Minnesota, will conduct another big (albeit less complex) survey. This one, however, will cost just $2 a head—about 8.5% of what Proex paid before. "That's quite a difference," notes company founder and president Bruce Thomson.

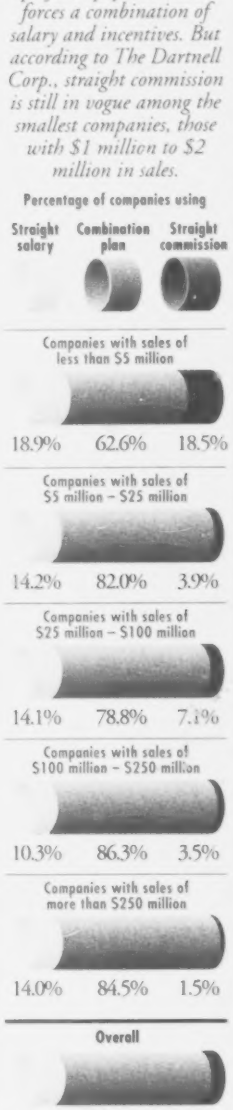
The difference is that this year Thomson is paying the outside firm only to ask the questions. Everything else—

(Continued on next page)

COMPENSATION

How Do You Pay Your Sales Force?

Today many companies prefer to pay their sales forces a combination of salary and incentives. But according to The Dartnell Corp., straight commission is still in vogue among the smallest companies, those with $1 million to $2 million in sales.


Percentage of companies using
Straight salary
Combination plan
Straight commission
Companies with sales of less than $5 million
18.9% 62.6% 18.5%
Companies with sales of $5 million – $25 million
14.2% 82.0% 3.9%
Companies with sales of $25 million – $100 million
14.1% 78.8% 7.1%
Companies with sales of $100 million – $250 million
10.3% 86.3% 3.5%
Companies with sales of more than $250 million
14.0% 84.5% 1.5%
Overall
14.8% 77.7% 7.5%

Source: "Twenty-sixth Survey of Sales Force Compensation," a survey of U.S. companies, 72.3% with sales less than $50 million. The Dartnell Corp., Chicago, 1990.

SALES PITCHES

Get in the Door One Step at a Time

YOURS IS SUCH A LITTLE company, and your potential customers—outfits like General Electric, Citibank, and IBM—are so huge. If you could just sign one of them on as a full-scale client, the revenues would be magnificent.

"Hello," you say, knocking on the corporate front door. "We're new and we're good, and we'd like to service your whole company."

"Beat it, kid."

Pierce Lowrey Jr., a Texan transplanted to New York City, has a different approach. He goes to the back door and asks for just a little bit of the business. That strategy, he says, is more likely than the other to get him invited in—and once he's in, he'll be in a much better position to sell.

Lowrey's company, Imtech, provides back-office support services to large companies. Imtech can operate mail rooms, data-processing departments, copy and printing shops, record-maintenance systems—almost anything that's information-related. By the end of Imtech's fourth year, sales had climbed to $21 million, but not because of one or two big scores. The company has more than 200 clients. Naturally, it will keep hunting new ones. But a large part of Imtech's growth will come from expanding its sales to the elephants it's already bagged. "After you've caught one," Lowrey says, "the way to eat it is one bite at a time." —*T. R.*

CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK

(RESOURCE, from page 82)

composing the questions, entering the responses, and tabulating the results—Proex will do itself using a $695 PC-based software package called Survey Master.

The program, one of a handful on the market, lets you write questions of any type: true/false, fill-in-the-blank, multiple choice, rating scale, and open-ended. While you're doing that, Survey Master creates the corresponding data-entry form you'll use to enter the results. (With most of the other programs, writing the questions and creating the data-entry form are two separate steps.) With all the survey programs, it's up to you how you want to tabulate the answers you get, but the software will prompt you and perform any cross-tabulation you want.

What Survey Master—or any other program—won't do is help you know which questions to ask. The Survey Master documentation does contain a short primer on survey design, but Thomson sometimes runs his questions by a professional pollster first to be sure the answers will yield the information he wants.

Survey Master is available from the manufacturer, Plain Jayne Software, in Edina, Minn., at (800) 827-4013.

—T. R.

TRADE SHOWS

Training on the Train

FOR $2,900—$2,100 TO CHARTER the Amtrak coach and $800 for the catering—Westcon, a New York City distributor of computer-network hardware and purveyor of network technical training, bought itself four uninterrupted hours of access to several dozen of its customers, potential customers, and trade-press journalists.

Chartering the train wasn't just a lark. All those people had to get from Manhattan to Boston for an industry trade show, anyway. So six-year-old Westcon, which had sales last year of more than $30 million, made the trek a promotional event. In one part of the car, Westcon instructors finished the second half of a day-long training course that had started in New York City earlier in the morning. "We called it 'Training on the Train,'" says Bruce Hanson, vice-president of educational services, "and sent out invitations that looked like boarding passes."

Renting the Amtrak coach was cheaper than throwing a dinner party. What's more, it had some practical purposes—not just training, but transportation as well—and it was unique.

"We were trying to establish that we are more innovative than the competition," says Hanson, who plans to put another Westcon training train on the tracks this fall to Washington, D.C. *—T. R.*

Journalists and potential customers made tracks to the Amtrak coach chartered by Westcon's Hanson.

PHOTOGRAPH: PATRICK HABRON

MANAGING PEOPLE

NSLA's Hall: Choose a leasing firm that has grown slowly.

WORK FORCE

Sidestepping the Potholes in Employee Leasing

ONE OF THE MOST ENTICING WAYS TO SAVE MONEY and reduce paperwork these days is by contracting with an employee-leasing company. For a fee, such companies will become your human-resources-administration department: they'll handle payroll and payroll taxes, provide health and workers' compensation insurance, and administer other benefits programs. The employee-leasing company becomes the coemployer of your workers, and you get better programs at a price you could never negotiate on your own. (See "The Joy of Leasing," May 1990.)

That makes a pretty attractive package, but it's one with some unpleasant surprises inside. The employee-leasing field is so new and is growing so fast that it has attracted some undesirable participants. And you don't dare expose your employees to a company that may not make good on insurance claims. Here are the questions you should ask to find an honest, well-run employee-leasing company:

How long have you been in business? You're probably safest with a company that has been in business for five years and has grown gradually. "There has not yet been a firm in this industry that's had explosive growth that has not been followed with an explosive downfall," asserts L. Morgan Hall, president of the National Staff Leasing Association (NSLA), in Alexandria, Va. Rapid growth means a firm may be underpricing its insurance *(Continued on next page)*

RESOURCE

Wall Postings

Keeping up with the welter of postings demanded by the Department of Labor and state governments can be a pain in the neck. Although you can get the posters gratis from the government (for federal posters, write to Employment Standards Administration, Office of Support Services, U.S. Department of Labor, Room S3013C, 200 Constitution Ave. NW, Washington, DC 20210), you might consider buying sturdier versions from Career Dynamics, of Mendota, Ill. (800-346-1231), which produces a 15-by-22-inch laminated Labor Law poster for $8.95. The poster displays all federal regulations, in English or Spanish: Minimum Wage Law, Job Safety and Health Protection (OSHA), Polygraph Testing, Equal Employment Opportunity, Handicapped Workers' Rights, Age Discrimination, and Child Labor. State labor posters are available, too. *—E. E. S.*

WORKPLACE

Scratch That Corner Office

WHAT DO EMPLOYEES really want in their work environment? The answers might surprise you. When Robert Lebow, a marketing executive, wanted to start a consulting practice in Bellevue, Wash., he asked Chicago's International Survey Research to help him answer that question. After analyzing the responses of 2.4 million workers in 32 industrial sectors in the United States over 17 years, the following eight characteristics "were the standouts," says Lebow, chairman of Heroic Environments.

1. To be treated with uncompromising truth
2. To be trusted by one's associates
3. To mentor and be mentored unselfishly
4. Receptivity to new ideas, regardless of their origin
5. To be able to take risks for the organization's sake
6. Credit to be given where it's due
7. Ethical behavior
8. The interests of others to be considered before one's own interests *—E. E. S.*

IN THIS SECTION

SIDESTEPPING POTHOLES IN EMPLOYEE LEASING
How to screen companies

RESOURCE: WALL POSTINGS

SCRATCH THAT CORNER OFFICE
What employees really *want in a work environment*

PENNY-PINCHING IDEAS
Smart incentive awards

HOW DO EMPLOYEES THINK?
Ron Parks's 'thinking model' of management

Edited by Ellyn E. Spragins

PHOTOGRAPH: KEVIN CRUFF

(WORK FORCE, from page 84)
or pouring too much of its customers' payments into marketing efforts.

•

Could I talk to five of your long-standing clients who are in my business and operate in my area? You want those clients to attest to accuracy and consistency in meeting payrolls, as well as confirm the employee-leasing firm's responsiveness. Ask how payroll delivery and other services work. Greg Hammond, general counsel of the NSLA, suggests asking: " 'If someone gets hurt on the job, is there a procedure to follow?' You want a workers' compensation program, not just workers' compensation insurance."

•

How do you handle sexual-harassment charges? "Oh, we let you handle that" is the wrong answer. Sexual harassment is a joint liability of the leasing company and its client. A good company has a comprehensive approach—which may include training programs in sensitivity, safety, and other areas—toward such potential problems.

•

Could I have the name of your bank, your insurance broker, and your insurance company? Again, the answers should be forthcoming. You should request credit references from the bank, details on the insurance coverage provided, and duration of the relationship with the insurance company. Check also that the insurance company is highly rated by A. M. Best.

•

Who is your third-party administrator (TPA)? Employee-leasing companies that are self-insured, as most are, must have an independent company, called a third-party administrator, handle administrative matters and claims payouts. Ask the TPA for a record of the leasing firm's payments of claims and a description of any cash-flow problems, and—most important—if the firm has ever asked the TPA to stop paying claims.

•

Is your administrator licensed to sell insurance in my state? "If your leasing company is using a self-insured health plan, the third-party administrator or the reinsurer must be licensed in the employee's state," Hall says. Call your state insurance commissioner's office to confirm.

•

What kind of reinsurance coverage do you have? The self-insured firm must have an insurance company that will step in if an individual claim exceeds a certain amount or if, in aggregate, all claims surpass a specified figure. Otherwise, you won't be adequately covered against catastrophe.

•

Could I see the results of a quarterly audit by an independent third party? Get proof that all tax deposits, insurance premiums, and employee-benefits payments have been made on time. NSLA members must submit such statements. Even if your employee-leasing firm is not a member, ask to receive such reports on an ongoing basis. If it won't comply, find a company that will. ***—E. E. S.***

INCENTIVES

Penny-pinching Ideas

Reynolds's 'bird bills' fit the bill.

WHEN TIMES ARE tough, the tough sometimes need a little help to get going. But spending cash on incentive awards may be the last thing you can afford. Here are some creative, low-cost ideas for rewards:

• **The thanks-for-the-loan-of-your-spouse prize.** Chris Carey, president of Datatec, a Fairfield, N.J., company that installs in-store computer systems, measures success through customer surveys. The employee with the highest survey score at the end of each quarter receives a plaque of recognition. And the employee's spouse receives a letter of appreciation and a certificate for a free dinner for two.

• **Perfectionism has its rewards.** Using the same customer surveys, Datatec also tracks the number of perfect scores per job site on a monthly basis. Workers who raked in the greatest number of perfect scores receive a "data dollar," which can be used to purchase products from a catalog.

• **Pampering without guilt.** Happy Feet Day was born the afternoon that Linda L. Miles, president of Linda L. Miles & Associates, in Virginia Beach, Va., stole away from the office to have a pedicure. Miles, who with her mostly female staff designs and conducts seminars, thought it might be nice for everyone to take an hour off to get pedicures. Total tab: $175, plus tip.

• **First-in-first-out award.** The coffee cup, balloons, or flowers and free lunch that $34-million Phoenix Textile, a St. Louis–based health-care linen supplier, gives its Employee of the Month aren't expensive or particularly memorable. But winners are reminded daily of their status by one other perk that goes with the award—the parking space right next to the front door.

• **Monopoly money with purchasing power.** Two years ago, when Pam Reynolds, president of Phoenix Textiles, wanted to design a new incentive system, she invented a new currency: "bird bills." Employees could earn the play money through excellent performance in 10 to 15 areas. To foster teamwork each employee was also granted a "bank account" of bird bills, which could be given to other employees who helped them. At year-end Phoenix hosted a cocktail party and auction at which employees could use their bird bills to buy items such as movie tickets, a cruise, a fax machine, and sleeping bags. The total cost of about $15,000 (including dinner and the auction) may seem high, but the program's cost per person is only about $214. ***—E. E. S.***

PHOTOGRAPH: MARK KATZMAN

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MANAGING PEOPLE

MOTIVATION

How Do Employees Think?

MONEY AND BENEFITS ARE THE universal carrots dangled before employees. But they can be ridiculously out of place. "Do you think you could stimulate Mother Teresa with a retirement plan?" asks Ron Parks, president of Millard Manufacturing, in Omaha.

After nearly 20 years of managing experience, Parks has devised an interviewing technique that digs deep into workers' hearts and minds to figure out, among other things, what motivates them. The information helps Parks select the right person for a job, but it's also an invaluable management tool.

The key question he asks to pinpoint a person's source of motivation: "When you are working on a project, how do you know you are doing a good job?" A person who tells you that she knows within herself whether her work is first-rate is, in Parks's term, "internal"—or self-directed. The person who says, "My boss (or my coworkers) tells me so" is external, requiring input from the outside.

Either may be a desirable worker in the right job. Obviously, an external would flounder in a position in which his work is rarely reviewed. Nor would he thrive working for a boss who is stingy with praise.

In contrast, praise is sometimes not the best tool with the self-directed. Such people will feel embarrassed—or even offended—if they are complimented by someone who isn't qualified to judge their accomplishments.

Parks, who has spent nearly two decades perfecting his "thinking model" of management, asks another dozen or so questions to ascertain an employee's performance profile. But if he could focus on one trait only, Parks would choose motivation. "I can accomplish more by knowing this one attribute than I can with any other," he explains. *—E. E. S.*

BANKING & CAPITAL

CONSULTANTS

Checking Out the Money Finders

IF YOU'RE WONDERING WHERE YOUR NEXT DOLlars are coming from, don't be surprised if a colleague suggests a "money finder." Money finders, who run the gamut from creative financial strategists to folks who call on the same bankers you already know, are popping up everywhere. How do you know which ones can truly deliver?

Since there are no licensing or professional standards governing financial consulting to small companies, you must carefully assess the person you hire. You can get referrals from your accountant, lawyer, or banker, but you should know what to look for and what you can expect from a money finder. (To see how they charge, see box below.)

What has the person done before? Make sure that the individual you select understands equity and debt markets, and can work with all the money sources you may need. Somebody who's spent the past 10 years concentrating on equity placements, for example, may be useless with bankers. You can get a sense of a particular finder's orientation by reviewing what that finder has done and by inquiring about his or her

(Continued on next page)

HOW DO MONEY FINDERS CHARGE?

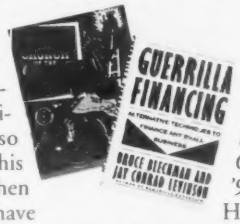
Plan on paying reputable money finders a percentage of the money they help you tap, plus some additional fees for services they provide. They don't lump everything into one fee, because some deals are never completed, and the business plan, which might run an additional $3,000 to $10,000, can be used for other purposes. Many finders have minimums or retainers, which are often advances against the ultimate fund-raising fees.

For bank debt, expect to pay 1% to 3% of the amount raised. If you're looking for subordinated debt or equity, fees could be as high as 3% to 5%, or may be on a sliding scale: 5% for the first $1 million, less on the remainder. Why so much? "It takes as much work to raise $250,000 as it does to raise $2.5 million," says Larry Nathan, a Longmeadow, Mass., investment banker. "Maybe more."

RESOURCES

Financing Your Company

A LOT OF PEOPLE, OURselves included, have noted that financing a business in the wake of the freewheeling 1980s demands different talents—a stronger stomach, for one. More imagination, too. A business owner also needs to know his options, and when those options have run out, he needs to tap others.



If you're looking for ways to raise money, you might want to check out *Guerrilla Financing*, by Bruce Jan Blechman and Jay Conrad Levinson (Houghton Mifflin, 1991). The book is crammed with useful information and suggestions on where to look for relatively small sums, as well as advice on how to roll with the punches. Even though *Guerrilla Financing* wades into technical stuff, it's ideal for browsing: chapters are carved into bite-size sections with headings that guide you along. Some sample headings: "What not to include in a financing plan," "What if you have little collateral and weak credit," and "How to find an aggressive banker."

You might also seek out another recent title, *Surviving the Credit Crunch of the '90s*, by Lance H. Woeltjen and Thomas B. Sanders (Chilton Book Co., 1991). This one is less comprehensive and less down-to-earth; even so, it presents a number of useful techniques for controlling cash, finding investors, and valuing your business. *—B. G. P.*

IN THIS SECTION

CHECKING OUT THE MONEY FINDERS
Finding those who can really deliver

RESOURCES: FINANCING YOUR COMPANY

ENHANCING YOUR CREDIT
Using collateral-control services

WASH OUT DEFECTORS
Make venture capitalists sign prenuptial agreements

Edited by Bruce G. Posner

ILLUSTRATION: ROXANA VILLA

LENDING

Bankers' State of Mind

Is your lender in a foul mood? Don't take it personally. It could be that the bank's portfolio has been sinking into quicksand. We took a look at all nonperforming loans (generally defined as loans that are 90 days or more past due and/or those that are not accruing interest). We included real estate, commercial, and personal loans, on the theory that bad loans, whatever the type, can color a banker's vision. Here are the states with the worst and best records as of the end of 1990.

Nonperforming Loans

Sitting Pretty	As % of gross loans	% change from 12/31/89	In the Dumps	As % of gross loans	% change from 12/31/89
1. Hawaii	0.5%	2%	1. Connecticut	10.4%	57%
2. Idaho	0.9	11	2. D.C.	8.6	502
3. Iowa	1.1	(7)	3. Massachusetts	8.0	42
4. Nebraska	1.2	(5)	4. Rhode Island	7.1	145
5. Alabama	1.3	20	5. New York	6.6	23
6. Michigan	1.4	35	6. New Jersey	6.3	101
7. Wisconsin	1.4	32	7. New Hampshire	5.0	36
8. Washington	1.6	0	8. Arizona	4.6	(17)
9. South Carolina	1.6	74	9. Louisiana	4.3	13
10. North Dakota	1.7	(13)	10. Maine	4.3	61

Source: Sheshunoff Information Services, Austin, 1991.

(CONSULTANTS, from page 87)

best contacts. If everyone the finder names is in equipment leasing—or any other niche—he or she may be too limited.

What do references say about your finder? Reputable finders will gladly furnish you with a list of their clients. The list will almost always be made up of people they've helped. But just because a finder has raised money for those people doesn't mean they're all fans. Ken Kinkel, CEO of CW Electronics, in Denver, suggests asking a finder's former clients if they would hire that person again. Also ask finders about the situations that *didn't* work out. What went wrong? What might they or the client have done differently? Ask to speak with some of those references, too.

What do they envision doing for you? A finder's contacts are important, but the best people have other skills to offer as well. They can help you write or fine-tune your business plan, prioritize which sources to hit first, and tutor you on what to say in a presentation. You may be tempted to let the finder handle all the dealings with money sources, but most financial people expect you and your managers to do the selling: they're judging your company's management, and that's whom they have to feel comfortable with.

Before you begin working with a finder, define in writing fees, scheduling, and the scope of the project. Be skeptical of anyone who works on a nonexclusive basis. Without a written agreement, a finder may feel less committed to you and may end up poisoning your best sources. *—B. G. P.*

COLLATERAL

Enhancing Your Credit

WHEN SKITTISH LENDERS SCOWL AT THE IDEA OF advancing the amount of cash you need against your inventory, don't despair. You may be able to change their minds by offering to use a third-party collateral-control specialist. When you enlist an outsider experienced in the ins and outs of watching collateral, your lender may feel less exposed to the risk of vanishing inventory and misappropriated funds. You, in turn, will improve your chances of borrowing more money.

Collateral-control services are more popular in tight-credit periods, but the basic format has been around for decades. It works like this: whenever you receive delivery of goods, you pledge the inventory to the lender, just as you do in ordinary asset-based financing. The difference is in the level of control needed to assure the lender that the assets listed actually exist and are being properly monitored.

To begin with, selected employees of the borrowing company are bonded and deputized as field agents of the collateral-control firm. Technically, those agents are employed and paid by the collateral-control firm, but the borrowing company underwrites their salaries. They're required, among other things, to file weekly reports with the bank and collateral company on the ebb and flow of inventory, along with relevant documentation (invoices, shipment orders, and so on). For an added layer of security, collateral firms do their own verification on inventory every 30 or 60 days; some firms protect lenders even further with liability insurance. The cost of these features will vary; while they may add .5% to 1.5% to the cost of borrowing, the overall interest rate may not increase that much, since the added protection causes the lender's risk to be lower. *—B. G. P.*

If you're interested in exploring the collateral-control options that may be available for your business, ask your banker or accountant for local referrals. Also, there are several companies that do business nationally, including DiversiCorp, based in Dallas, (800) 875-9813; Douglas Guardian Warehouse, based in San Francisco, (800) 227-4644; and Inventory Verification Services, based in St. Louis, (800) 878-3444.

▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼

USING COLLATERAL CONTROL WITHOUT DEBT

You don't have to tap debt sources to find collateral-control services helpful. Some wholesalers and retailers use the approach to get better terms from vendors. Noah Hebert, who owns two large furniture stores in New Orleans, receives merchandise from more than 20 suppliers who agree to forgo payment until the items are sold. "If they didn't have confidence in the way the inventory is monitored," Hebert says, "they'd ship us a lot less. It's a sophisticated consignment system—we get to keep an extensive inventory without borrowing from the bank."

CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK

BANKING & CAPITAL

Marks: Argue for prenuptial terms.

VENTURE CAPITAL

Wash Out Defectors

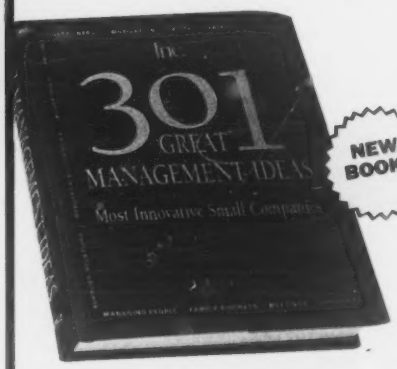
IF YOU'RE CLOSING IN ON financing from venture capitalists, don't assume that just because they're hot on you today they'll be eager to bankroll you tomorrow. Lately, a number of venture-backed companies have been deserted by investors who ran out of money to invest or lost their enthusiasm. In some cases, defections have killed companies. How can you increase the likelihood of future funding?

One approach is to persuade the VCs to sign a prenuptial agreement. Before they put the first dollars in, they sign a "pay to play" provision that spells out the investors' responsibility to put up their pro rata share in future financing or suffer getting their current shares badly diluted—or "washed out." Shares worth $1 might be cut to 1¢. Or investors might be stripped of their liquidation preference. "The idea is to put pressure on the whole investor group," says Dan Finkelman, a lawyer at Testa, Hurwitz & Thibeault, in Boston.

In most cases these days, the terms of financing are proposed by investors. But there's no reason you can't argue for a prenuptial provision. "It won't guarantee that investors stay with you," says Arthur J. Marks, a general partner with New Enterprise Associates, in Baltimore. "But it could encourage people to earmark money for future rounds and make it painful if they don't." —*B. G. P.*

PHOTOGRAPH: CHARLES FREEMAN

WOULD YOU SPEND 8¢ FOR A GREAT IDEA?



301 Great Management Ideas
From America's Most Innovative Small Companies

introduction By Tom Peters

Who says great ideas have to cost big bucks? Some of the best business ideas are those that are simple to understand, easy to apply and cost little or nothing. Now you can get the best management tips ever to appear in Inc. Magazine in Inc.'s new book "301 Great Management Ideas from America's Most Innovative Small Companies." • At only $24.95, that's about 8¢ an idea!

Hands-On Information

The ideas come from Inc.'s monthly department "Hands-On: A Manager's Notebook" –a collection of low or no-cost, highly effective ideas that have been pre-tested by companies just like yours. These ideas work! Countless businesses have adapted and successfully implemented the ideas in this book. Now you can put these proven ideas into practice in your own company...and watch the results.

You'll Get Great Ideas On:

- How to eliminate the problem of "no-shows with hourly employees." **(Idea #8–Managing People)**
- How you can save thousands of dollars on the cost of your company's medical insurance. **(Idea #244–Cost Control)**
- A sure-fire program for getting rid of your accounts receivable bad debt. **(Idea #254–Collections)**
- How a $6 investment can make your weekly staff meetings more efficient. **(Idea #201–Meetings)**

Easy To Use Format

The format of the book is simple and straight forward– 301 innovative ideas catagorized into 36 different chapters based on management disciplines. The ideas come one per page – short and digestible but packed with food for thought for any company owner or manager.

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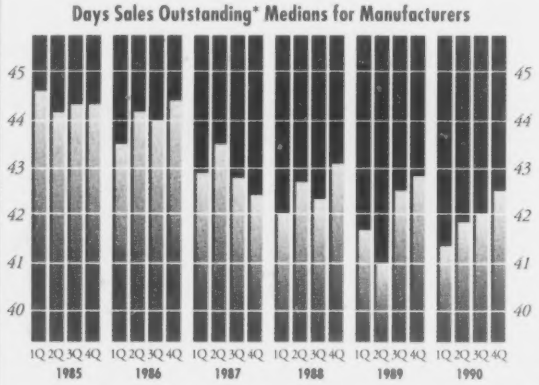
Inc. BOOKS

FINANCIAL STRATEGIES

COLLECTIONS

Getting Paid



Source: "National Summary of Domestic Trade Receivables," based on a quarterly survey of 275 to 300 manufacturers. Credit Research Foundation, Columbia, Md., 1991.

*Calculated by multiplying the most recent three months' worth of average trade receivables by 90 and then dividing by the most recent three months' worth of credit sales.

The last six years witnessed a general decline in "days sales outstanding" — the ratio measuring how quickly receivables are paid. (See chart, left.) But apparently those were the good old days. Robert F. Thompson, president of the Credit Research Foundation, expects to see an uptick in the DSO for the first quarter of 1991 and perhaps beyond. "We're seeing a slower turn of receivables in general," he says. "It's the beginning of a change." And perhaps the time to tighten credit policies, he adds.

"It's never too late to send letters to existing as well as new customers telling them you've revised your procedures," agrees Robert A. Weissman, a Los Angeles lawyer specializing in collections and creditors' rights. "Then require them to sign a formal credit application that includes notices about payment terms, late fees, attorneys' charges, and other expenses you'll expect them to bear if bills become overdue."

—Susan Greco and J.A.F.

BUSINESS VALUATIONS

Know Your Worth

JACQUELINE MOORE, CEO OF RIDGAway Philips, a home health agency in Spring House, Pa., wanted to know how much money she could raise to make an acquisition. To find out, she had a valuation of her company done. In the process, she discovered the importance of improving her cash management, making better use of her company's assets, and planning tax-advantaged exit strategies.

Moore hired Fred Roa of Telesis, a valuation specialist in her industry, to do the appraisal for half his $12,000 fee up front and the balance upon completion.

Because of Moore's strong history of earnings, Roa arrived at a $6.8-million price tag by calculating the value of Ridgaway Philips based on its future potential earnings. He also considered recent sale prices of competitors and the growth potential of the market for comparison. Roa had considered using an asset approach to valuation—which takes into account the future value of a company's assets—but based on its assets, Ridgaway Philips was worth only $5.7 million.

In the process of arriving at those figures, Roa discovered information Moore really could use. Together they looked at Ridgaway Philips's major hard asset—its $50,000 computer system—and found that it was being used a small fraction of its potential. "We thought because the system slowed down whenever we did payroll that it was close to capacity, but we were wrong," says Moore. She's promoted an employee to establish a routine for system maintenance and to

(Continued on page 91)

RESOURCES

Valuing Your Business

To learn more about valuing a company, consider *What Is a Business Worth?* by Jeffrey P. Wright ($14.95 plus $2 postage), which provides equations for calculating value. To order write to EVS Publications, P.O. Box 5268, Scottsdale, AZ 85261. Also look at *Business Valuation Manual*, by Thomas W. Horn ($29.95 plus $2.50) from Charter Oak Press, P.O. Box 7783, Lancaster, PA 17604, (717) 560-9338.

IN THIS SECTION

KNOW YOUR WORTH
The payoffs of valuations

RESOURCES: VALUING YOUR BUSINESS

LIKE-KIND EXCHANGES
Swapping buildings

ACCOUNTING PROS
A sea of choices

SECURE YOUR STAKE
How to protect personal cash put into your business

Edited by Jill Andresky Fraser

CHART: ROSS CULBERT LAVERLY & RUSSMAN INC., NEW YORK

(BUSINESS, from page 90)
develop the computer's sales-reporting and general-ledger capabilities, and a variety of other management reports.

Roa pointed out that Ridgaway Philips's cash was exposed and vulnerable. Only a small percentage of the company's seven-day commercial paper was insured by the FDIC, and its credit line was underutilized. Roa convinced Moore she needed to protect her company's cash.

To prevent earnings from piling up in the future, Moore is researching a number of options, including planned giving as a long-term tax-advantaged exit strategy, and using some of the built-up cash to start a foundation for child-advocacy programs, which she would continue to fund with future profits. Her goal is to reinvest the company's profits in the community she serves, a strategy that has the additional appeal of reducing the company's taxable income.

—Teri Lammers

TAX STRATEGIES

Like-Kind Exchanges

KEVIN BALIOZIAN, PRESIDENT of Tekno, a photography-lighting distributor, was in a bind: He couldn't afford to keep operating out of his 20,000-square-foot building in the River North area of Chicago, since the neighborhood had become so gentrified that his real estate taxes had risen sky-high and his customer base—professional photographers—had moved elsewhere in search of lower rents. But he also couldn't afford to sell the building and move, since he owed taxes on about $1 million worth of capital gains.

Fortunately, there was a solution: a like-kind exchange (known as a Section 1031 transfer by the IRS). "Here's a way to exchange one property for another to defer capital-gains taxes until you dispose of the new property," explains Marty Birnbaum, a principal at Miller, Cooper & Co., a Northbrook, Ill., accounting firm.

The deal can be structured around exchanges between one business and another of any set of buildings used for similar purposes, and may include office buildings, warehouses, or any other type of commercial property, as well as raw land held for investment purposes. Baliozian has added an interesting twist to Tekno's like-kind exchange. "We're selling our old building to one business owner while a third party is constructing a similar building for us in another, lower-cost location," he explains.

Tekno president Baliozian

To safeguard his tax advantage, Baliozian needed to comply with strict IRS guidelines. Proceeds from the sale of Tekno's old building went into an escrow account that was eventually used to pay for construction of the new building. Within 45 days of the sale, a signed contract had to identify the site and description of the building designated for the swap. Then construction had to be completed within 180 days of the original sale.

Since the swap wasn't exactly equivalent—the new building cost less than the original was sold for—Tekno did incur a small capital-gains tax liability, but one much less than Baliozian had anticipated owing without the like-kind exchange. "I can't complain," he says. "We kept the tax bill under control and wound up with exactly the kind of building we wanted in a location that we could afford near our customers."

—J. A. F.

ADVISERS

Accounting Pros

SMALL-BUSINESS OWNERS MUST choose among a bewildering array of accounting-service options when it's time to prepare tax returns and financial statements. (See table at right.) While CPAs are the most expensive option, they're more than worth the cost, given the rigor of their training, peer review, and regulation.

The AICPA publishes a directory of 6,000 member CPA firms, all of which provide their CPAs with at least 120 hours of continuing education every three years and undergo a peer review of accounting and auditing practices every three years. The directory is free; to order it call (800) 272-3476 (in New York, 212-575-6446).

—Researched by Chris Caggiano

Type of professional	Services for business	Typical fee	Training/ regulation
Certified public accountant	Prepare, audit, and certify financials; tax preparation and planning; advice on management, M&A, and business sales; IRS-audit representation	$50–$250 per hour	B.A.; rigorous CPA exam; code of professional ethics; mandatory continuing education
Accountant	Tax preparation and planning; advice on management (but cannot represent at IRS audits unless also an enrolled agent; cannot certify financials)	$35–$200 per hour	No exam or licensing requirements; no educational standards
Enrolled agent	Can represent at IRS audits	$40–$185 per hour	Special exam; continuing education requirements
Tax preparer	Can fill out tax forms (can represent at IRS audits if an enrolled agent)	$20–$175 per hour	May have some training classes; in most states, no exam or licensing requirements

PHOTOGRAPH: ANDY GOODWIN

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FINANCIAL STRATEGIES

ASSET PROTECTION

Secure Your Stake

WHEN COMPANIES HIT HARD times, owners often reach into their own pockets for cash infusions into their businesses. Unless those infusions are carefully documented as loans, owners' funds may be irretrievably lost if the business is eventually forced into bankruptcy proceedings.

To avoid that risk, Richard Bruder, a law partner with Seyburn, Kahn, Ginn, Bess, Howard & Harnisch, in Southfield, Mich., recommends these strategies:

- **If you're in a cash crunch, document *all* your cash infusions as secured loans.** This requires three legal documents: (1) a promissory note, signed by your company, the borrower, that details the amount and date of the loan as well as payment terms; (2) a security agreement, also signed by the company, describing the assets against which the company grants you a lien as collateral; (3) a UCC-1 financing statement—to be filed with your secretary of state—which formally establishes a record of your lien.
- **If you're in a growth mode, tie your cash contributions to specific asset acquisitions and then formally secure the loan with a lien against that new asset.** "If you can demonstrate that you've personally provided the funds to acquire a new asset, a security agreement can give you the first lien against it," says Bruder. Remember also to back up the loan with a promissory note and a UCC-1 filing.

If a company is in a cash bind, Bruder advises that owners not pay themselves salaries when they know they'll only have to lend that money to the company. By forgoing salaries, they can avoid incurring immediate payroll-tax obligations. Instead, owners should document and secure forgone salary as a loan to the company. That will, at a minimum, defer the tax on that money and possibly reduce combined taxes paid by the company and the owners. *—J. A. F.*

IN THE OFFICE

SAVING CASH

How to Cut Postage Costs

TRY AS IT MIGHT, NO ALTERNATIVE DELIVERER HAS been able to spirit a piece of flat mail around the country more efficiently than the U.S. Postal Service (USPS). Must the private sector therefore swallow whatever Washington feels like charging? Not necessarily—thanks to a marketing scheme of the USPS itself, which grants significant price breaks for mail that meets certain preconditions.

One of them is Zip + 4, a coding strategy introduced in 1983, in which every mailing address in the country has its own nine-digit zip code. By the late 1980s, though, barely 15% of domestic mail was using such "smart" codes, mainly because it takes a colossal database merely to store them. To entice reluctant businesses into adopting Zip + 4, the USPS offers to upgrade a commercial mailing list from five to nine digits for free. The conversion is a one-time-only favor, however, after which the participant is obliged to update the list at its own not-inconsiderable expense.

For more on Zip + 4 and the importance of clean mailing lists, see page 96.

Cost is no longer an excuse. In a play for the ordinary-business market, Arc Tangent recently trimmed the cost of its zip-coding product by 87%, from $1,495 to $195. Given that pricing, how many pieces of flat mail would a run-of-the-mill enterprise have to process for in-house automation to pay off? As few as 1,000 a month, warrants Arc Tangent president William Urschel. He ought to know: his company mails about that amount. *—R. A. M.*

OFFICE TECHNOLOGY

Networking Without Wires

THE COMPUTERS IN A local-area network at The Travelers Cos., in Hartford, aren't linked by thick electrical cords snaking across ceilings and down walls. Yet its terminals magically communicate with one another and a central processor just as in a conventional LAN. The difference is that Travelers is "wired" by infrared light, a medium that (along with radio waves) is already freeing office networks from the physical bondage of coaxial cable—and the fiscal pain of leaving it behind if you move.

Not only can today's powerful desktop systems exchange data among themselves without visible support, but by the end of this year they'll be joined by battery-operated portables with identical abilities. That's the expectation of Gary Hughes, CEO of Photonics, in Campbell, Calif., an original-equipment-manufacturer supplier of the transceivers that will go inside the briefcase-size machines.

Infrared signals will allow the portables to be plugged into existing hard-wired office networks. But a more beguiling application is a concept wireless techies have termed "collaborative computing." Under it—for only about $100 more tacked on to the retail price of a typical laptop—we'll see regional managers at a national sales meeting, say, pump figures from their portables into a central processing unit, creating a companywide sales picture. Based on the results, the gathering can then collectively formulate the next year's campaign. Lest competitors should be lurking outside with *their* portables, the infrared signals can be kept within the confines of four walls, Hughes reassures apprehensive executives. *—R. A. M.*

▼

WIRELESS-LAN PLAYERS

Infrared implementation:

- **Photonics, Campbell, Calif., (408) 370-3033.**
- **BICC Communications, Auburn, Mass., (508) 832-8650.**

Radio implementation:

- **Motorola Corp., Arlington Heights, Ill., (800) 233-0877.**
- **NCR, Dayton, Ohio, (800) 544-3333.**

IN THIS SECTION

HOW TO CUT POSTAGE COSTS
Use presorting software

NETWORKING WITHOUT WIRES
Cable-free systems

PLEASE HOLD FOR CUSTOMER SERVICE
How software support stacks up

RESOURCE: GRAPHIC CHALK-TALK

WALL-TO-WALL CARPING
Open offices get no respect

Edited by Robert A. Mamis

ILLUSTRATION: BOB HAMBLY

THE PRODUCT

It's called Zip++ (version 2.0) and costs $195. Both software and affiliated national address database come packaged on a single compact disc. The program is updated and reissued quarterly. In conjunction with Arc Tangent Professional Mail ($695), it merges and purges addresses, inserts nine-digit zip codes, presorts by carrier route, and prints form letters and bar codes. Runs on IBM-type microcomputer with hard disk; requires CD-ROM drive. Arc Tangent, Santa Barbara, Calif.; (805) 965-7277.

•

CLEANLINESS PAYS

The USPS estimates that 15% of the average business list is wasted on bad addresses; thus a company that doesn't sanitize its lists essentially is paying 33.4¢ for a 29¢ stamp. The USPS's Zip + 4 conversion program turns the antiquated five-digit zip codes on corporate mailing lists into the efficient nine-digit kind so the post office can save on labor, and standardizes and corrects the spellings of addresses so companies can save on postage. To take advantage of the government's free offer, you must supply your list on an MS-DOS 3.5-inch or 5.25-inch floppy in standard database format. For information call (800) 238-3150 or write to the National Address Information Center, Diskette Processing Services, 6060 Primacy Pkwy., Suite 101, Memphis, TN 38188. Make that 38188-0001.

SOFTWARE SUPPORT

Please Hold for Customer Service

FEW ARE THE COMputer programs with code so clean and manuals so clear you don't require assistance from their vendors. To determine the alacrity of responses to outside pleas for help, *Inc.* phoned 18 software publishers of various sizes and products, to see how long a customer typically waits before being connected to live support.

Each vendor was dialed twice, once in the morning and once in the afternoon. As any consumer would, *Inc.* went for a toll-free number first, if one was available and wasn't constantly busy. Lacking a complimentary line, we dialed direct, on us.

Here's a representative sample of *Inc.*'s findings, viewed through the dialers' notes.

COMPANY	SOFTWARE TYPE	TOLL-FREE LINE	HEARING-IMPAIRED LINE	HOURS *	SUPPORT STAFF
Phoenix Call Reporting Lincoln Park, N.J.	sales management	yes	no	8–8	31

FIRST TRY: The toll-free line turns out to be a private one installed by big customer seeking immediate responses to service problems. **Time elapsed: 0:10**

SECOND TRY: Private line not fair measure, so try switchboard. Operator dumps me into silent hold. Impossible to tell whether still on hold or disconnected eons ago. Eventually decide latter is the case, call back, again request tech support. Get tech-support manager, who explains company's support system is being revamped. **Time elapsed: infinity plus 1:00**

FOLLOW-UP: Several customers already have their own dedicated 800 lines (customer pays monthly charges). However, vendor isn't yet sure how many incoming calls computer system will be able to handle. Putative advantages to customer: individual attention, cheaper than direct dial.

Lotus Development Cambridge, Mass.	general business	yes	yes (800) 457-0909	8:30–8 24-hour support for Lotus 1-2-3	200

FIRST TRY: Polite "welcome to Lotus. . . ." Picked up by live operator who screens problems and connects to appropriate specialist. Puts me through. **Time elapsed: 3:05**

SECOND TRY: Same polite message. Intermediary answers, puts me on hold. Brief bout of supermarket music. **Time elapsed: 2:05**

FOLLOW-UP: Lotus customers are given two service options—an 800 number free for six months (starting with the first phone call) and for $99 each year after; a 900 number for faster service, but with limited hours. Feature: watchdog computer that realigns support staff when it detects phone-wait times edging into customer service unacceptability.

ViewLogic Systems Marlboro, Mass.	engineering	yes	no	8–8	10

FIRST TRY: Switchboard puts me through to tech support. Rings four times; recorded voice says no engineers available right now but leave name and company, someone will call back. Someone does. **Time elapsed: 6:30**

SECOND TRY: Again no one available right now. I leave return-call request, later receive call with explanation that staff member would have called back sooner but knew I wasn't a customer after consulting database. Company has generous policy of eventually helping anyone who calls. **Time elapsed: 27:15**

FOLLOW-UP: Phone attendants are electrical engineers doing a stint of product-support duty. Use of 800 number requires maintenance contract.

Microsoft Bellevue, Wash.	operating systems, general business	no	no	9–9	800

FIRST TRY: Busy, busy, busy. Finally get through to touch-tone menu; given option to go into second level for frequently asked questions about specific product. I try it; am advised that while there I'm not in line for support but can leave anytime to get back in. Not fair timing test, so I autodial again, go direct to technician-summoning touch-tone "2." This provokes immediate assistance. **Time elapsed: 0:10**

SECOND TRY: Reach same menu, press "2." Recording says, "Welcome to Windows support group, please hold." Do so. **Time elapsed: 2:25.**

FOLLOW-UP: Submenu technique of defusing common problems has "really made a difference," says company. An average of 9,000 calls received a day; 85% are handled in less than 20 seconds.

WordPerfect Orem, Utah	word processing	yes	yes (800) 321-3256	continuous, 9 a.m. Monday–midnight Friday	about 760

FIRST TRY: Toll-free number is busy, so I dial direct. Connected with touch-tone menu. Get instruction to stay on line, next available blah blah blah. Music is wicked cool calypso-jazz. Piece ends, voice takes over, tells me how much longer. Also recites product promos like disc jockey. **Time elapsed: 7:15**

SECOND TRY: DJ estimates a five-minute wait. **Time elapsed: 4:00**

FOLLOW-UP: Company reports 15,000 to 16,000 service requests a day. DJ "traffic update" concept initiated in spring 1990 to reduce customer frustration. Reported reaction? "Extremely positive." Cost? For starters, four DJs make more than $20,000 each.

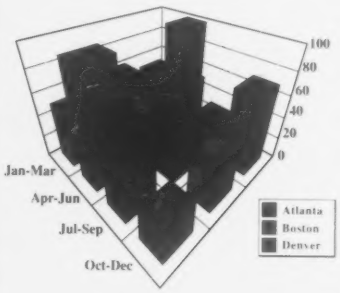
* Times given are Eastern time.

—Researched by Susan Greco and Chris Caggiano

RESOURCE

Graphic Chalk-Talk

TWO-D OR 3-D?—THAT IS THE question. And one well asked of modest-priced business software that promotes an ability to draw three-dimensional presentation-quality graphs. Many such promises are fulfilled only in 2-D, with an ersatz third dimension consisting merely of cartoonlike shadowing. The reason for this is understandable: manipulating the variables of two axes (sales volume per month, for example) is simple enough even in a budget package, but tacking on a third axis (sales volume per month, broken down by region) adds spatial complexities solved at more developmental expense.



A 3-D chart generated on the cheap

That's not to say it can't be done on the cheap. *3-D Charts to Go!* (Bloc Publishing, Coral Gables, FL, 305-445-0903; 800-888-2562) delivers true height-by-width-by-depth renderings for a two-dimensional $100 bill. A recently released version running under Microsoft Windows converts imported or on-the-spot data into a dazzling display of bar, line, pie, and area graphs, together with headlines and other illustrative decor. Projected or printed as vivid representations of how your business is doing, they can't help impressing viewers—your backers, for instance.

It's so much fun you'll want to dust off a mouse and create designs in the privacy of your own office. Images can be spun around, pumped up, shrunk, recolored, elongated, compacted, crosshatched, viewed from above and below, made to unfold from the center, added to, subtracted from, combined, and so on till the clock strikes 5. The backers can wait. *—R. A. M.*

OFFICE DESIGN

Wall-to-Wall Carping

IN A POLL CONDUCTED EARlier this year among several hundred corporate members of the American Productivity & Quality Center (APQC), a nonprofit business-research organization in Houston, more than half the respondents (56.8%) said they worked in fully walled offices, while less than a quarter (21.4%) claimed modular settings. The nearly three-to-one ratio suggests that semiwalled workplaces are not gaining on closed-door tradition as rapidly as the office-decor trade may presume. Indeed, a number of respondents thought open or modular offices showed disregard for people, dispatching that opinion—the APQC was chagrined to note—in "strong language." Groused one, "Open offices reflect a 'cheap' attitude." An organization that implements them, another complained, "treats employees as cattle."

Why so snippety? Disaffection is likely to result, theorizes Dan Wiseman, an APQC-affiliated consultant on white-collar work settings, "if you impose an open office on people who don't perceive themselves as a team." When one company designed new open offices, it separated clerical people from the executives they supported. The physical and social isolation resulted in a marked *increase* in errors and delays. After the company asked the employees to redo the layout themselves, efficiency and morale soared. "If office people are given a chance to create ownership of their own space," Wiseman observes, "they find ways to make it work." *—R. A. M.*

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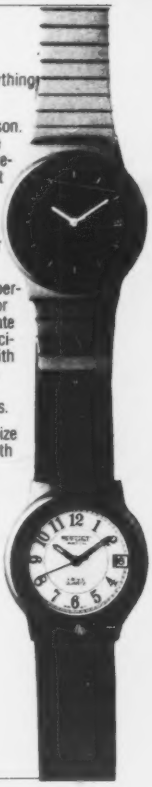

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THE INC. NETWORK

CLUB HOUND

In May Alex Popov asked about organizations of entrepreneurs in the Bay Area (Where Everybody Knows Your Name).

The Community Entrepreneurs Organization (415-435-4461) is a grass-roots multi-industry networking group that has been around for about nine years and meets in San Rafael on the first Tuesday evening of each month. The Bay Area Entrepreneur Association (415-294-8149) is similar but much newer. And the Chief Executive Officers' Club (212-633-0060), a group for CEOs of companies with sales of at least $2 million, has a San Francisco chapter.

Roderick Crandall
Executive Director
Community Entrepreneurs Organization

The San Francisco Chamber of Commerce (415-392-4511, ext. 819) sponsors committees for entrepreneurs that help them develop leads, organize seminars, and monitor laws.

David C. Bratt
Account Executive
Chamber of Commerce
San Francisco

The Executive Committee sponsors 240 presidents' groups in the United States and claims 2,600 members. Presidents meet twice a month, once with the committee chairman, once in a group of 13 to 15. There are 14 such groups in the San Francisco Bay area. Call (619) 563-5875 for information about these groups.

Dick Andreini
Chairman
The Executive Committee
San Jose, Calif.

PET PEEVE

Soon Carolyn Moskowitz will need to hire workers for her fast-growing house- and pet-minding service. She can bond them inexpensively if she hires them as employees, but she's worried about all the paperwork that would involve. She would rather hire independent contractors, but bonding them individually could get expensive (Safe Pets, May).

Ms. Moskowitz should study the IRS's rules regarding classification of independent contractors. If she pays workers by the hour, week, or month, for instance, or if she trains them yet considers them independent contractors, she risks running afoul of the IRS. In addition, I've found that hiring workers as employees fosters good relations between me and my workers, and that helps me build a loyal clientele.

Matt Borneman
CEO
Tidy Maids
Dallas

Not one prospective client has ever declined my services because my employees were not bonded, once I explained my decision. I tell them the people I hire are honest. Bonding agents do not perform character checks. They confirm only that a person is financially able to match the amount of the bond. What the employer pays for is the bondsman's guarantee that if a client sues an employee and wins a court judgment less than or equal to the value of the bond, the bondsman will pay the client immediately and then pursue the

NEW QUERIES

How are you dealing with health-care costs? Our first query comes from a CEO who is considering self-insurance and wants to compare notes. Other readers ask about multilevel marketing, buying computers, and working through retirement. And in Resources, experts answer this question: how can you protect your invention when discussing it with others?

COMPANY, INSURE THYSELF

After years of watching health-insurance premiums at our $1.5-million corporation multiply while our benefits evaporated, we're considering self-insurance for our seven employees. Where can we get good advice on this? We'd love to hear from companies that are self-insured.

David Elkind
President
Elkind + Sweet Communications
San Francisco

SECRETS OF THE PYRAMIDS

I am researching multilevel marketing, and I want to know when in a company's life cycle new members stop making money. Has anyone analyzed this? I have found little information on the industry—only the suggestion that it is not bona fide. If that's true, I'd like to know that as well.

Deborah Grove
San Francisco

ONCE BURNED

How do you make a decision when buying a large number of personal computers? Last year we started developing software to store and manipulate data in our field offices and to forward data to our headquarters for further analysis and accounting. We went to local providers, who answered all our questions and assured us their system was upgradeable and expandable. We outgrew it in a year and learned then that it would cost more to upgrade than to buy a new, larger system. Where can we get better, unbiased advice?

Bennie M. Warren
President
Consolidated Traffic Management Services
Duluth, Ga.

PART-TIME CEO

I'm planning to buy a small business a year or two before I retire. Is there information available on running a business part-time? Have people out there done it, and can they offer some advice?

Neil Steyskal
Washington, D.C.

employee for the amount later. Be sure to check with a bonding agent near you to make certain this is true in your area.

Sue Marshall
Owner
The Help Place
East Lansing, Mich.

Ms. Moskowitz should not assume that she can avoid paperwork and taxes by subcontracting. If she tells her workers what to do, where to do it, when it must be done, and in what manner, the IRS will probably consider them employees and could impose stiff penalties for misclassification. The IRS may hold her liable for all unpaid taxes on the reclassified worker and can reclassify all other workers in the same job capacity, introducing a tax burden that might drive Ms. Moskowitz out of business. The IRS can in some cases levy criminal charges. As a paid tax preparer, I have met many disgruntled employees who face large tax burdens because their employers treated them like independent subcontractors rather than employees. In every case, these employees reported their former employers for tax violations. My advice? Hire someone to handle the paperwork, and pay your taxes.

Wesley A. Kent
Warren, Mich.

Please send your words of advice to The* Inc. *Network, 38 Commercial Wharf, Boston, MA 02110, or call our reader response line,* (800) 444-1756. *Or fax your letters to* (617) 248-8090. *We'll publish the best responses and queries.

RESOURCES

HOT SEAT

I've designed a chair that is unique and marketable. How can I protect my designs when I approach manufacturers with my ideas?

Timothy Fox
Wareham, Mass.

"All the money people spend protecting their ideas would be better spent trying to penetrate the market faster," says June Lavelle, president of the Fulton-Carroll Center, in Chicago. (See "Mother of Invention," October 1989.) Her incubator houses several furniture makers, and none, she says, sought patent protection for its designs. "If you really do have something good that's easy to copy, of course it's going to be ripped off. The real purpose of a patent is to slow down the competition, but how much does it truly slow them down? And how deep are your pockets? Because that means litigation. Well, shoot, isn't your money better spent marketing than litigating?

"The best defense is to hit the marketplace so fast that you get good market share before someone has the opportunity to knock you off," Lavelle says. As a last resort, she says, "I would knock myself off"—in other words, produce a cheaper version of her furniture before competitors could.

Others don't dismiss patent protection. "Right now the courts are deciding very much in favor of inventors, and patents are worth a lot," Don Moyer, founder of the Inventors' Council, in Chicago, says. It may take a few years for your application to be reviewed, but simply filing establishes the date of the patent pending. A carefully maintained, witnessed notebook can be used to tell when you conceived of your product. But you must file within a year of making your idea public or trying to commercialize it. The U.S. Patent and Trademark Office publishes the pamphlet "General Information Concerning Patents" (Superintendent of Documents number 003-004-00651-0), available from the Government Printing Office (202-783-3238) for $2. You may also establish the dates of conception of the idea with a disclosure document, which costs only $6 to file. Someone else can still win the patent on your idea, however, if he or she can prove earlier conception. For more information, call (703) 557-INFO.

You can also protect yourself with nondisclosure agreements, in which the signer agrees not to use or disclose your idea. Waltham, Mass., patent lawyer Joseph Iandiorio warns that some corporations, instead of signing such an agreement, will produce their own, which releases them from any obligation of confidentiality. "Those are the kind you don't want to sign," Iandiorio says.

Don Moyer thinks you may have trouble getting big companies to sign a secrecy agreement. "Manufacturers' mothers told them, 'Sonny, don't ever talk to inventors. Five years from now you'll forget you saw this and think you invented it, and that will get you into trouble.' You have to overcome the manufacturers' fears." Show that a market exists for your product—perhaps by selling some of your chairs first. Also, know something about the business. "The inventor has to understand what's a good product for a manufacturer. Will it be made in Malaysia? How will it pack? Will it fit on a pallet?" Another tip from Moyer: small manufacturers with less to lose may be less skittish.

Bob Bennett, who invented MicroFridge, a combination microwave-freezer-refrigerator (see "The Small Chill," February 1990), got all the manufacturers he spoke with—including Sanyo and Samsung—to sign such agreements. But he gave them good reasons to do so. Before contacting the manufacturers, Bennett developed a plan for selling the product through colleges and hotels, and paid for a customer survey that proved his product had a market. Your survey will carry more weight if you have a third party design and conduct it. But Bennett says you can design and conduct one yourself. For help, we suggest *Do-It-Yourself Marketing Research*, by George Edward Breen and Albert B. Blankenship (McGraw-Hill, 1989, 800-262-4729).

"I was petrified that someone would steal my idea," says Bennett, "but the whole business of stolen ideas is really overblown. Ideas are easy. What really makes a company happen is an individual with the drive and energy to do it."

— Michael P. Cronin

THE AMERICAN DREAM

BUSINESS FOR SALE — SEATTLE BOOKSTORE

THE BUSINESS The ideal bookstore: independent, established, and in a prime location—a mile from the University of Washington, on a bohemian street with heavy foot traffic. No mass-market fluff here: the 1,260-square-foot store attracts a counterculture crowd covetous of its poetry volumes (the second-largest selection in Seattle).

FINANCIAL SUMMARY

	1989	1990	1991*
Gross revenues	$83,983	$94,597	$100,257
Pretax profit	($9,230)	($3,447)	$7,000

*projected

PRICE $62,000

OUTLOOK Last year Americans purchased more than $15 billion worth of books. And Seattle is a healthy yet competitive market—the 10th largest in the nation. But making money from selling books *anywhere* is notoriously difficult. Net income before taxes typically runs a slim 3% of sales. Independents relinquish as much as 60% of their revenues to publishers. But success can be had. The key? Keep that inventory turning and overhead costs low.

PRICE RATIONALE The bulk of what you're buying is inventory—5,000 titles with a wholesale value of $33,000. Remaining assets—a lease through 1994, furniture, fixtures—add up to $22,000. Valuing bookstores is as idiosyncratic as the volumes stocked. But using one industry rule of thumb—four times projected profits, plus asset value—this store looks downright reasonable.

PROS This shop has generated goodwill in its neighborhood of devout literati. There's healthy potential, too: currently the inventory turns twice a year; if you have the willpower to shrink it by parting with slow-moving (albeit precious) titles, and turn it once more (industry average is three times a year), you can increase revenues by 33%. New markets to explore: mail order, supplying local schools.

CONS Running a successful bookstore is more mystery than romance. The store struggles to regain the popularity it enjoyed in the early 1970s. Sales volume has gradually increased and operation costs have decreased, but profits have yet to appear. And independence may give you control, but it doesn't give you a chain-store buyer's clout, nor the security of knowing that one store closed doesn't spell bankruptcy. *—Alessandra Bianchi*

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